

Company Result

19 December 2017

Hai-O Enterprise Berhad

BUY

On An Unstoppable Growth Trajectory

Maintained

Share Price	RM5.47
Target Price	RM6.41

Result

Company Description

Hai-O Enterprise Berhad is offering a wide range of Chinese medicines, medicated tonic, wellness, beauty and healthcare.

Stock Data

Bursa / Bloomberg code	7668 / HAI0 MK
Board / Sector	Industrial/Food & Drug Retailers
Syariah Compliant status	No
Issued shares (m)	291.42
Par Value (RM)	0.50
Market cap. (RMm)	1,594.08
52-week price Range	RM2.45 – 5.60
Beta (against KLCI)	0.49
3-m Average Daily Volume	0.29m
3-m Average Daily Value [^]	RM1.55m

Share Performance

	1m	3m	12m
Absolute (%)	2.2	5.8	120.0
Relative (%-pts)	0.5	19.5	105.7

Major Shareholders

	%
Kai Hee Tan	10.11
Akintan Sdn Bhd	7.83
Excellent Communications	5.34

Historical Chart



Source: Bloomberg

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- **Hai-O reported a net profit of RM21.4m for its 2QFY18.** The quarterly net profit improved by 20.0% QoQ and 34.8% YoY. Meanwhile, the Group recorded quarterly revenue of RM123.5m, flattish QoQ, -0.8, while increased 23.8% YoY.
- **For 1HFY18,** the Group attained a higher topline and bottomline of 39.0% and 53.2% YoY respectively.
- **1HFY18 net profit was deemed within expectations.** The Group's 1HFY18 net profit of RM39.3m accounted for 46.7% of market forecast and 44.1% of our full year estimate. Nevertheless, we believe that Hai-O's 2H net earnings will be stronger and hence able to meet our full year earnings expectation on the backdrop of festive seasons.

Comment

- **Better earnings QoQ.** The Group reported a higher PBT margin, +4.0 pts in 2QFY18 as compared to 1QFY18. The improvement was due to wider use of social media and market digital platforms resulted in the operating efficiency from MLM division. Besides, the Wholesale and Retail divisions also posted better results with respective PBT increased by 3.6% and 82.4%.
- **Lower MLM sales.** However, the QoQ revenue was flattish with lower sales generated by MLM division, -6.7% mainly due to early purchase by its members during 25th year anniversary grand sales promotion in 1QFY18. However, overall group's sales were partly aided by higher revenues generated from the Wholesale division and Retail division.
- **Higher top line contributions from the Wholesale and Retail divisions.** The Wholesale division achieved higher revenue of 26.3% driven by higher contribution from sales of Chinese medicated tonic and patented medicine. Meanwhile, the Retail division recorded an increase of 27.8% for its revenue, thanks to half-yearly members' sales promotion campaign.
- **Stronger earnings YoY.** The increase was mainly contributed by MLM division thanks to higher recurring sales of consumer products, personal care products with household products contributed more than 70% of total sales, as well as its 25th year anniversary grand sales promotion. Moreover, the Wholesale division posted a revenue and PBT increase of 40% and 169.6% respectively, underpinned by higher sales generated from Chinese medicated tonic.

- **Higher 1HFY18 earnings contributed by all three main divisions.** Likewise, the better performance of the Group's 1HFY18 earnings were mainly attributable to higher sales pursuant to its 25th year anniversary grand sales promotion and others sales promotion campaigns.
- **Dividend declared.** The Group has declared a single tier interim dividend of 6 sen/share.
- **Positive Outlook.** The Group is optimistic on its 2HFY18 banking on: 1) MLM division will continue to develop more new products especially lifestyle range of products and beverage products in the next quarter; while new members recruitment and retention programs still remain vibrant as one of the on-going activities; 2) Wholesale and Retail divisions will continue to carry out extensive CNY promotion campaign as Chinese New Year (CNY) festival is approaching; and 3) The Group continues to leverage on Digital marketing platform for its MLM ecosystem and hence further improve its operational efficiency and margins.

Earnings Outlook/Revision

- **We maintain our earnings forecast for FY18F and FY19F** as we believe that the Group will generate higher earnings as 2HFY18 is a seasonally stronger period.

Valuation & Recommendation

- **Maintain BUY with a higher target price of RM6.41** (previous target price: RM5.23) as we roll over our valuation to FY19F. Our revised target price is now pegged at 17.5x FY19F (+1.5 SD above mean) based on EPS of 36.6sen.
- **We favour Hai-O for its:** 1) strong earnings growth trajectory, 2) sturdy balance sheet with net cash position, 3) resilient sales unfazed by prevailing high cost of living, 4) strong brand name among Malaysian household, and 5) stable profit margin with effective cost rationalization.

Figure 1: Quarterly Figures

Year ended 30 April	2QFY18	1QFY18	2QFY17	QoQ	YoY	6MFY18	6MFY17	YoY
	RMm	RMm	RMm	%	%	RMm	RMm	%
Revenue	123.5	124.5	99.8	-0.8%	23.8%	248.07	178.44	39.0%
Gross profit	42.7	41.1	32.3	3.9%	32.2%	83.80	57.62	45.4%
Operating profit	27.4	22.8	20.2	20.0%	35.6%	50.27	32.78	53.4%
PBT	27.9	23.1	20.3	20.5%	37.1%	50.96	32.92	54.8%
PAT	21.6	17.6	15.9	22.9%	35.9%	39.22	25.36	54.7%
Net profit	21.4	17.9	15.9	20.0%	34.8%	39.30	25.65	53.2%
Margin (%)				ppts	ppts			ppts
Gross profit margin	34.6%	33.0%	32.4%	1.6	2.2	33.8%	32.3%	1.5
Operating profit margin	22.2%	18.3%	20.3%	3.9	1.9	20.3%	18.4%	1.9
PBT margin	22.5%	18.6%	20.4%	4.0	2.2	20.5%	18.4%	2.1
PAT margin	17.5%	14.1%	15.9%	3.4	1.6	15.8%	14.2%	1.6
Net profit margin	17.4%	14.3%	15.9%	3.0	1.4	15.8%	14.4%	1.5

Source: Company, JF Apex

Figure 2: Revenue and PBT by division

Year ended 30 April	2QFY18	1QFY18	2QFY17	QoQ	YoY
	RMm	RMm	RMm	%	%
Total Revenue	123.5	124.5	99.8	-0.8%	23.7%
MLM division	95.5	102.4	77.5	-6.7%	23.2%
Wholesale division	16.5	13.0	11.8	26.9%	39.8%
Retail division	10.4	8.1	9.3	28.4%	11.8%
Others	1.1	1.0	1.2	10.6%	-8.3%
Total PBT	26.6	22.9	18.9	16.2%	40.5%
MLM division	19.9	19.2	16.1	3.6%	23.4%
Wholesale division	6.2	3.4	2.3	82.4%	169.6%
Retail division	0.5	0.3	0.5	66.7%	0.0%
PBT Margin				ppts	ppts
MLM division	20.8%	18.8%	20.8%	2.1	-
Wholesale division	37.6%	26.2%	19.5%	11.4	18.1
Retail division	4.8%	3.7%	5.4%	1.1	(0.6)

Source: Company, JF Apex

Figure 3: Financial Summary

	FY15	FY16	FY17	FY18F	FY19F
	RMm	RMm	RMm	RMm	RMm
Revenue	239.9	297.6	404.0	553.6	671.9
Gross profit	85.6	101.4	132.9	171.6	201.6
Operating profit	42.2	48.3	77.3	113.7	140.1
PBT	43.0	49.1	78.1	114.6	141.0
PAT	30.8	36.6	59.2	89.4	109.9
Net profit	30.1	36.3	59.3	89.2	109.8
Gross profit margin (%)	35.7%	34.1%	32.9%	31.0%	30.0%
Operating profit margin (%)	17.6%	16.2%	19.1%	20.5%	20.8%
PBT margin (%)	17.9%	16.5%	19.3%	20.7%	21.0%
PAT margin (%)	12.8%	12.3%	14.7%	16.1%	16.4%
Net profit margin (%)	12.5%	12.2%	14.7%	16.1%	16.3%
Revenue growth (%)	-5.3%	24.1%	35.7%	37.0%	21.4%
Gross profit growth (%)	-8.5%	18.5%	31.0%	29.2%	17.5%
Operating profit growth (%)	-19.0%	14.5%	60.0%	47.1%	23.2%
PBT growth (%)	-19.0%	14.0%	59.2%	46.7%	23.0%
PAT growth (%)	-24.8%	18.9%	61.9%	51.0%	23.0%
Net profit growth (%)	-25.3%	20.8%	63.1%	50.6%	23.0%
ROA	9.8%	11.3%	16.2%	23.1%	27.6%
ROE	11.3%	13.5%	20.0%	28.7%	34.4%
Net gearing	Net cash	Net cash	Net cash	Net cash	Net cash
EPS	10.0	12.1	19.7	29.7	36.6
P/E	19.6	19.6	19.6	19.6	19.6
Dividend payout (%)	98.2%	81.6%	80.6%	53.6%	43.5%
DPS (sen)	10.0	10.0	16.0	16.0	16.0
Dividend yield (%)	1.8%	1.8%	2.9%	2.9%	2.9%

Source: Company, JF Apex

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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